

Conducting Market Research For Price Analysis CHAPTER 1

Chapter Vignette

WIDGET ACQUISITION

You have just received a purchase request for 98 widgets. The price estimate developed by the initiator is \$5,000 per unit for a total \$490,000.

You have never procured a widget before, and you are particularly interested in the reasonableness of the price estimate. You are especially concerned because a price of \$490,000 seems like a lot of money for 98 widgets.

Knowing that effective planning is the key to every successful contract, you are about to begin the planning process by using market research to learn more about the product you are acquiring and the market for that product. You wonder what sources of information you can use to learn more about widgets and widget pricing. What steps do you follow?

Chapter 1 outlines considerations for developing a preliminary estimate of the price and otherwise prepare for price analysis before soliciting offers. The process can be used for acquisitions made using simplified acquisition techniques, sealed bidding, or negotiation. Of course, the level of preparation required for each acquisition will depend on such factors as your product knowledge, market knowledge, and the dollars involved.

LESSON 1: CONDUCT MARKET RESEARCH FOR PRICE ANALYSIS

Terminal Learning Objective: Given a purchase request containing the Independent Government Estimate, use market research to estimate a proper price level that is fair and reasonable.

Enabling Learning Objectives:

1. Determine whether the Independent Government Estimate is reasonable.
 2. Identify internal and external sources of market data used to estimate probable price.
 3. Develop the proper price level.
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Learning Methods: Lecture, discussion and class exercise

Assessment Method: Multiple-choice test

Student Assignment: Read Volume I, Chapter 1.

Competencies-Learning Levels: Unit 6, Task 4, Level 2/3

1.0 Chapter Introduction

In This Chapter

This chapter covers three important elements in using market research to develop a preliminary estimate of contract price:

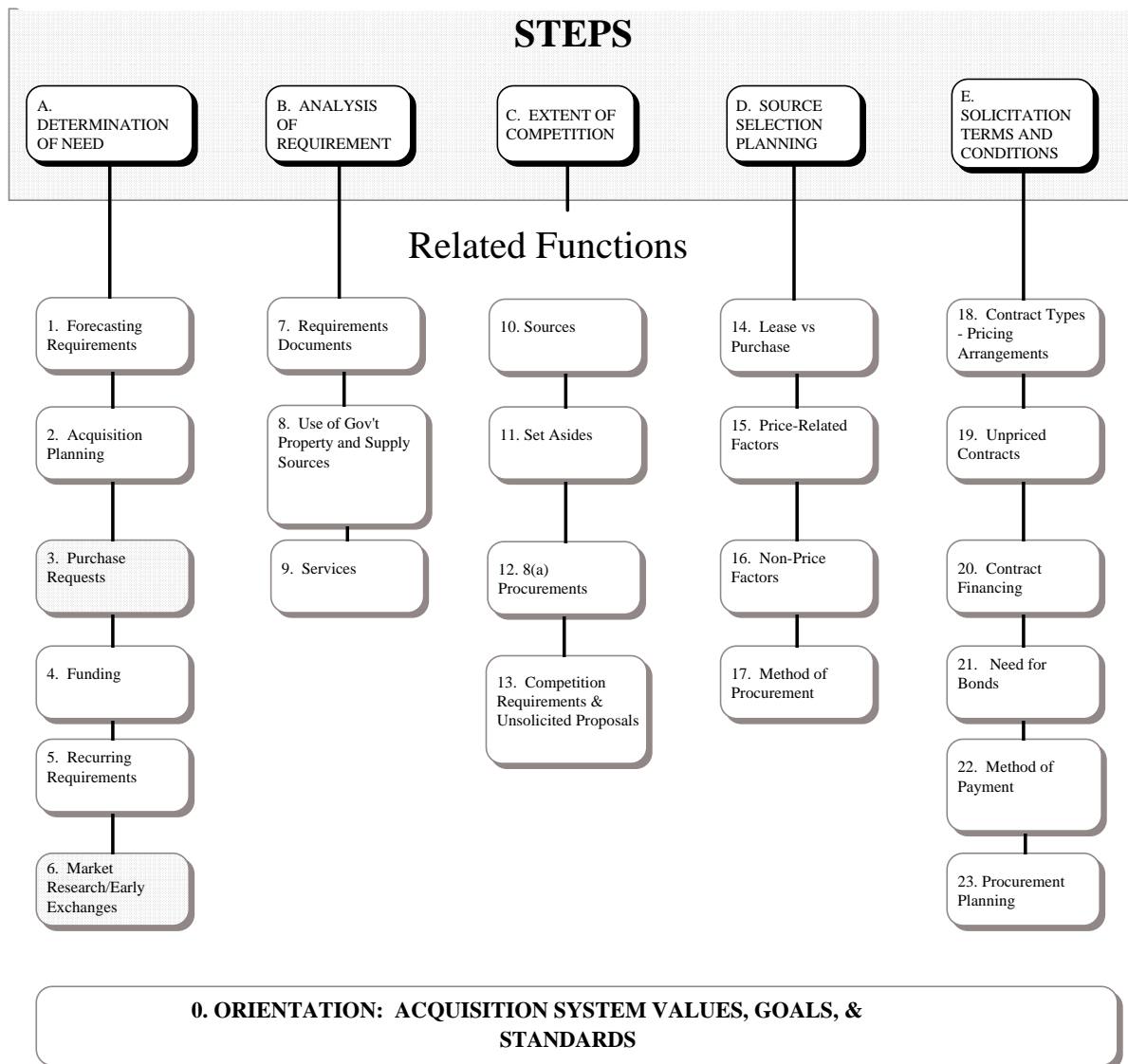
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1.0 Chapter Introduction (cont)

Activities in
Presolicitation
Phase

In this chapter, we will examine the importance of reviewing the purchase request and conducting market research in preparing for price analysis.

I. ACQUISITION PLANNING



1.0 Chapter Introduction (cont)

Presolicitation Market Research

FAR 2.101
FAR 3.104-3(b)(3)
FAR 10.000
FAR 10.001(a)(1)
FAR 10.001(a)(2)

In Government acquisition, market research requires collecting and analyzing information about capabilities within the market to satisfy Government needs. Market research policies and procedures should be designed to arrive at the most suitable approach to acquiring, distributing, and supporting supplies and services. The personnel involved must ensure that legitimate needs are identified and trade-offs evaluated to acquire items which meet those needs.

To get the supplies and services that will best meet the needs of the Government, the Government members of the Acquisition Team must understand the true needs of the Government and know what is available in the marketplace. Market research should be an on-going process for every member of the Acquisition Team, but there are three points where effective market research is particularly important:

- The purchase request should reflect the results of market research conducted by the requester. The requester should consider input from other Government members of the Acquisition Team, especially from the user (if different than the requester) and Government technical personnel. Contracting personnel should support and encourage requester market research efforts whenever possible. For example, the catalogs and price lists available in the contracting office may be invaluable to the requester's market research effort. Contracting personnel should not take the responsibility for developing the requirements documents and should remind other members of the Team not to disclose source selection information outside channels authorized by the agency head.
- Before soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold, you must conduct market research to assure that together the requirements documents and the contract business terms form the most suitable approach to acquiring, distributing, and supporting supplies and services. This research may be a one-time analysis or part of your on-going effort to know and understand the marketplace for the items that you routinely procure. As you perform your market research, you may question the requirements documents, but you must never change those documents without authorization from the requester.

1.0 Chapter Introduction (cont)

Presolicitation
Market
Research (cont)

- Before soliciting offers for acquisitions with an estimated value less than the simplified acquisition threshold, you should perform market research whenever adequate information is not available and the circumstances justify its cost.
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Information for
Market
Research

FAR 10.001(b) FAR 10.002(b)(2)

When conducting market research, you should not request potential sources to submit more than the minimum information necessary. Most firms will gladly support Government market research as long as the result will benefit the firm. Most will provide complete information about how the products that they can provide will meet Government requirements. However, they are unlikely to provide information about problems with their products or about other products that could better meet the Government's needs at a lower total cost.

Generally, information on a particular product or industry is available from many sources other than potential offerors. These sources include:

- Knowledgeable individuals in Government and industry;
 - The results of recent market research undertaken to meet similar or identical requirements;
 - Government data bases that provide information relevant to agency acquisitions;
 - Interactive, on-line communication among industry, acquisition personnel, and customers;
 - Source lists of similar items obtained from other contracting activities or agencies, trade associations or other sources; or
 - Catalogs and other generally available product literature published by manufacturers, distributors, and dealers or available on-line.
-

1.0 Chapter Introduction (cont)

Market Research Results

FAR 10.001(a)(3)

Use the results of market research to:

- Determine if there are sources capable of satisfying the agency's requirements;
 - Determine if commercial items or, to the extent commercial items are not available, nondevelopmental items are available that:
 - ◊ Meet the agency's requirements;
 - ◊ Could be modified to meet the agency's requirements; or
 - ◊ Could meet the agency's requirements if those requirements were modified to a reasonable extent.
 - Determine the extent to which commercial items or nondevelopmental items could be incorporated at the component level;
 - Determine the practices of firms engaged in producing, distributing, and supporting commercial items, such as terms for warranties, buyer financing, maintenance, and packaging and marking; and
 - Ensure maximum practicable use of recovered materials and promote energy conservation and efficiency.
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Market Research and Contract Pricing

FAR 10.002(c)
FAR 10.002(d)

The FAR requires that you use the results of market research in developing Government requirements and determining how you will satisfy those requirements. This research is required because the decisions made in the presolicitation phase of the acquisition process will be key factors in defining what the Government receives and the price that the Government will pay. For example, contracting decisions that:

- Increase contractor performance costs will normally increase contract price.
- Lower contractor performance costs will normally reduce contract price.
- Limit competition will normally increase contract price.
- Facilitate competition will normally reduce contract price.
- Increase contractor risk will normally increase contract price.
- Limit contractor risk will normally decrease contract price.

1.0 Chapter Introduction (cont)

Market
Research and
Contract Pricing
(cont)

The better you understand the marketplace the better you will be able to make decisions that will enable you to meet the needs of the Government at a reasonable price.

This same understanding of the marketplace will enable you to develop a better estimate of a reasonable price for a contract that meets the needs of the Government. Your preliminary price estimate and the factors that affect contract price will be key inputs to the acquisition planning process. For example, the method of contracting and required contract terms and conditions both depend on your estimate of contract price. In addition, your preliminary estimate of contract price will become a key input to your final determination of contract price reasonableness.

1.1 Reviewing The Purchase Request And Related Market Research

Section Introduction

In This Section

When determining how much reliance you can place on the Independent Government Estimate in making contracting decisions, you must evaluate the depth and quality of the analysis involved in developing the estimate. As a minimum, you should consider the five areas covered in this section.

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1.1.2 What Assumptions Were Made?	1-13
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Purchase Request

The purchase request is the document that formally transmits the requirement to the contracting office. It is the purchase request that typically first combines the Government requirements document with the Independent Government Estimate of contract price. Normally, the purchase request will also include an assurance that funds are available or will be available to fund the acquisition of the required supplies or services.

Independent Government Estimate

FAR 15.404-1(b)(2)

As the name implies, the Independent Government Estimate must be developed independently by the Government. Independent development is vital because this estimate normally provides your first indication of a reasonable contract price and it is also one of the bases that you should consider in contract price analysis. The estimate development process may be automated or manual, but the best estimates reflect the requester's market research.

1.1 Reviewing The Purchase Request And Related Market Research (cont)

Reviewing
Requester
Market
Research

FAR 10.001(a)(2)

FAR requires market research before developing new requirements documents for an acquisition. Logically, this responsibility falls on the requester. The quality of the requester's Independent Government Estimate usually depends on the quality of the requester's market research. Because of the importance of the Independent Government Estimate to your selection of appropriate acquisition techniques and eventually your decision on price reasonableness, you should review the estimates carefully, before initiating further procurement action.

1.1.1 How Was The Estimate Made?

Introduction	To judge the reliability of a Government estimate, you must know how the estimate was made.
Estimate Preparation	Purchase requests may be prepared by an automated system or manually by the requester or an estimating specialist.
Automated Purchase Request Estimates	<p>Estimates for purchase requests prepared by an automated system are developed following an algorithm that has been programmed into the system. The most common algorithm is to set the unit price estimate equal to the last unit price paid.</p> <p>Estimates prepared by automated systems rarely take changes in the market situation into account. Even such basic factors as changes in price related to changes in quantity are not considered. For example, assume that the requirement is for 5,000 generators. If the last acquisition was for a single generator, the estimated unit price for each of the 5,000 generators would be the same as the price for a single generator.</p> <p>When you make acquisitions based on automated purchase requests, you must learn what market factors (if any) are considered in preparing the request. Factors not considered in estimate development should be special areas of emphasis in your market research. Once you understand the algorithm for developing the automated estimate, you should remain alert to possible changes in that algorithm.</p>
Manual Purchase Request Estimates	<p>Estimates for manual purchase requests are typically prepared by the individual preparing the purchase request. Different organizations, and different individuals within the same organization, may have different methods of developing the Government estimate.</p> <p>Estimates should reflect any market changes identified during market research. Unfortunately, many do not. Instead manual estimates, like automated estimates, are often based on the last unit price paid with no consideration of changes in the market situation.</p>

1.1.1 How Was The Estimate Made? (cont)

Manual Purchase
Request Estimates
(cont)

You must determine how each individual estimate was developed so that the other questions concerning reliability can be examined. This also provides a general insight into the amount of time devoted by the requester to market research.

1.1.2 What Assumptions Were Made?

Introduction

Every estimate involves assumptions. Knowing and understanding those assumptions can give you an insight into the estimator's understanding of reliable estimate development.

Analysis of Assumptions

In many cases, user/technical/program personnel are not familiar with relevant cost factors and market forces that affect contract pricing. As a result, assumptions and estimates may not be accurate.

If the rationale used to develop the estimate is not clear or does not seem reasonable, ask questions! **IN PRICING, THERE ARE NO DUMB QUESTIONS!** If you do not know, ask! By asking questions about the Independent Government Estimate and accompanying documentation, you can identify assumptions that are not consistent with market realities and work with the requester to improve the estimate before the contracting process begins.

Estimate Example 1: The requester used the last price paid for an item to estimate the price for the same item 10 years later.

- **Assumptions** The requester has assumed that the last price paid was reasonable, and that the market situation has not changed in 10 years.
- **Analysis** Over a few days or weeks, it may be reasonable to assume that the price has not changed if quantity, delivery, and other factors have not changed. But in this case the last purchase was made 10 years ago? Normally, it is not reasonable to assume that the price has not changed in 10 years. Once you identify the assumptions used in estimate development, you can evaluate them and adjust for any that do not appear consistent with market realities.

1.1.2 What Assumptions Were Made? (cont)

Analysis of
Assumptions
(cont)

Estimate Example 2: The requester estimated the price of 100 warehouse trucks with 3 cubic foot capacity based on the price paid for 2 cubic foot units acquired during the last month.

- **Assumptions.** The requester has assumed that the recent price was reasonable, and that the unit price is not affected by changes in unit capacity.
 - **Analysis.** The assumption that unit price will not be affected by the unit's capacity may or may not be reasonable. However, the great difference in capacity should lead you to subject this assumption to closer scrutiny during your market research.
-

1.1.3 What Information And Analysis Were Used?

Introduction	<p>It is important to determine what the requester knows about the item or service being requested and what estimating tools were used in estimate development.</p>
Market Research Information	<p>The most successful estimators know their item. Before they make an estimate, they collect information on the product and the market for that product. Their market research may be a one-time effort or part of an on-going process that is an integral part of their normal job.</p> <p>The most reliable estimates are prepared by estimators who have performed detailed market research and can answer “yes” to the following questions that apply to a particular purchase request:</p> <ul style="list-style-type: none">• Did the estimator perform a detailed analysis of the Government requirements documents?• Is the estimator familiar with the market for the item, including:<ul style="list-style-type: none">◇ Last price paid?◇ General market price changes?◇ Current commercial market price?◇ Quantity price breaks? <p>Possible substitutes?</p>
Estimating Analysis	<p>Market information alone is usually not enough. The estimator must be able to apply appropriate analysis to estimate development. Reasoned analysis provides a much more supportable estimate than one that is simply based on estimator judgment and experience. The strongest estimates are usually the result of a reasoned analysis supported by the use of appropriate quantitative techniques.</p> <p>Reasoned Analysis. A reasoned analysis is an analysis that sets forth the known information and clearly explains how it was used in estimate development. This analysis may or may not be supported by the use of quantitative techniques.</p> <p>Quantitative Techniques. When appropriate, adjustments should be made using accepted quantitative techniques. For example, index numbers can be used to quantify price changes and adjust historical pricing data.</p>

1.1.3 What Information And Analysis Were Used? (cont)

Estimate
Support
Comparison

Estimates supported by words such as “professional judgment,” but no factual data, are typically of little value. Estimates based on good information and the application of appropriate quantitative techniques or reasoned analysis will generally be more accurate and easier to support throughout the acquisition process. For example, in an analysis of changes in technology, which of the following techniques would be more useful in price estimation?

Professional Judgment. “Based on my 20 years of experience as a Project Engineer and my knowledge of the product, I estimate the price of this unit at \$585,000.”

Reasoned Analysis. “We are requesting new high sensitivity replacement units. A year ago, a product could not be produced with this level of sensitivity to high frequency sound. Today, units with similar sensitivity improvements are available at a 30 percent higher price than the less sensitive units they replaced. Therefore the estimated price for this unit, \$585,000, is 30 percent higher than the \$450,000 price last paid for the less sensitive unit that it will replace.”

1.1.4 Where Was The Information Obtained?

Introduction	The breadth and depth of the requester's market information will have a substantial impact on the quality of the estimate. Learn what you can about the sources of information used by the requester in estimate development, because some sources of information are better than others. Knowing the sources of information will make it easier for you to evaluate the reliability of the estimate.
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Estimate Information Sources	Many estimators rely exclusively on historical prices as their base for estimate development. Historical prices are an excellent source of information on the price at some point in the past but market conditions and Government requirements change over time. Past prices for a similar item may have been based on detailed Government specifications while the current requirement is based on products commonly traded in the commercial market place. In that situation, historical prices may not provide a viable price estimate.
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Encourage requesters to provide source data with their estimates. Information, such as a vendor catalog or portion thereof, will provide an excellent starting point for your market research.

Product Analysis	If the requirement is unique and there is no price history available, the estimator must develop a price estimate by some other form of analysis. One option is for the requester to develop an estimate based on an evaluation of the material and labor required to produce the product. When such estimates are required, the more current the data used to develop the cost estimate, the more reliance you can place on the estimate.
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Misleading Information	Many data sources, such as stock lists, can present information that is difficult to use in price estimating. The price information is usually not current and there is typically little information about its source. Prices may be historical prices from an unknown point in the past or even averages of historical prices. It is typically difficult or impossible to adjust these prices for changes in the market situation. As a result, you must be particularly careful when using such data as a base for estimated development.
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1.1.4 Where Was The Information Obtained? (cont)

Emphasize
Estimator
Independence

While use of vendor catalogs and other methods of market research should be encouraged, estimators **MUST BE DISCOURAGED FROM CONTACTING VENDORS FOR SPECIFIC QUOTATIONS**. This is particularly true in sole source situations, where the Independent Government Estimate may be a primary basis for determining price reasonableness. If both the estimate and the proposal come from the offeror, there is no independent measure of price reasonableness.

1.1.5 How Did Previous Estimates Compare With Prices Paid?

Introduction

An examination of the Independent Government Estimate should include an examination of the estimator's track record. Just as past vendor performance is an indicator of future contract performance, the quality of past estimator performance is an indicator of the quality of the current estimate.

Comparison with Prices Paid

In evaluating estimates, ask: "Have the estimator's past estimates been close to contract prices determined fair and reasonable through analysis using other price analysis techniques?"

If the answer is yes, greater reliance can be placed on current estimates developed using similar techniques.

If the answer is no, less reliance should be placed on these estimates.

1.2 Considering Contract Pricing In Your Market Research

Section Introduction

In This Section

The Independent Government Estimate is only one preliminary estimate of contract price. As a minimum, your research, should consider the data sources identified in this section.

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Factors to Consider in Researching the Market

Each time you conduct market research the process will be different because of differences in Government requirements, market conditions, and other factors. The following table identifies research factors and outlines the type of questions that you should be able to answer when you complete your market research. Not all of the questions identified in the table will be valid for every acquisition. For some acquisitions, you will have many specialized questions that are not covered in the following table. However, the research factors identified and the related questions provide a good framework for your market research.

1.2 Considering Contract Pricing In Your Market Research (cont)

Factors to Consider in Researching the Market (cont)

PRICING FACTORS TO CONSIDER IN MARKET RESEARCH	
Research Factor	You Should Be Able to Answer Questions Such As...
Pricing History	<ul style="list-style-type: none"> • What information is available concerning past prices paid for the product and changes in the product or market since then? • Have there been historic differences between prices paid by the Government vis-à-vis other buyers? Why?
Current Competitive Conditions	<ul style="list-style-type: none"> • How many sellers are in the market? • How many buyers?
Current Overall Level of Demand	<ul style="list-style-type: none"> • What is the relationship of the quantity we intend to buy vis-à-vis the quantities that others buy? • Will our volume justify a lower than market price due to the seller's increased economies of scale? • Will our volume be so large as to drive the sellers to or beyond full capacity, resulting in unanticipated inflation?
Trends in Supply and Demand	<ul style="list-style-type: none"> • Will demand be higher or lower at the time of award than now? • Will supply capacity keep pace with demand?
Pattern of Demand	<ul style="list-style-type: none"> • Is there a cyclical pattern to supply and demand? • Would awarding six months from now result in lower prices than an immediate award? • Or would it be better to stock up now at today's prices?
Other Market Forces Expected to Affect Contract Price	<ul style="list-style-type: none"> • What forces might drive up prices in the near future? Strikes? Labor shortages? Subcontractor bottlenecks? Energy shortages? Other raw material shortages? • What forces might lead us to expect lower prices in the future?
Pricing Strategies	<ul style="list-style-type: none"> • What are the pricing strategies of firms in the market? • What are the implications for expected prices?
Sources of Supplies or Services	<ul style="list-style-type: none"> • Which firms in the market are the most likely to submit offers to a Government solicitation? • Which are the least likely and why?

1.2 Considering Contract Pricing In Your Market Research (cont)

Factors to Consider in Researching the Market (cont)

PRICING FACTORS TO CONSIDER IN MARKET RESEARCH	
Research Factor	You Should Be Able to Answer Questions Such As...
Product Characteristics	<ul style="list-style-type: none"> • What features distinguish one product from another? • Which commercial products match most closely with the Government requirements document (as it currently reads in the purchase request). • What is the apparent tradeoff between features and price?
Delivery/ Performance Terms	<ul style="list-style-type: none"> • What are the current distribution channels? • What are current transportation costs (if available and applicable)? • What are the commercial lead-times?
Ownership Costs	<ul style="list-style-type: none"> • What are the commercial warranty terms and conditions (if any)? • What are the historical repair costs for each product? • What are the historical maintenance costs for each product?
Contract Terms and Conditions	<ul style="list-style-type: none"> • What terms and conditions are used in commercial transactions? • What terms and conditions have been used in other Government acquisitions? • What type of contract is generally used in commercial transactions? Government acquisitions?
Problems	<ul style="list-style-type: none"> • What has been the historical default rate by firms performing similar contracts? • What performance problems have typically been encountered? • Have similar acquisitions been characterized by claims or cost overruns?

1.2.1 Historical Pricing Data For Market Research

Introduction

FAR 7.103(I)

Prior to contracting, the contracting officer must review:

- The acquisition history of the supplies and services; and
- A description of the supplies, including, when necessary for adequate description, a picture, drawing, diagram, or other graphic representation.

One of the reasons for this requirement is to ensure that prior prices are considered in estimating the proper price of the current acquisition. However, you must also remember that information from Government historical price databases provides a picture of what happened in the past. You must integrate this information with information from other market research to enhance the accuracy of your price estimate.

Sources of Acquisition Histories

Acquisition histories can be found in many sources. Typically, the best sources are contract files, computerized acquisition data files, and manual item records.

Contract Files. Usually, the best source of information on past pricing decisions is the original file of the contract action. Detailed information, and the rationale used to determine price reasonableness should be available in the file.

Computerized Acquisition Data Files. Computers provide immediate access to the data considered most important to purchase decision making. While computer data files may not be as complete as purchase files, they do provide key data in a form that can be used by the buyer in a timely fashion.

Manual Item Records. Manual item records typically provide data similar to that contained in computerized acquisition data files.

Researching Historical Acquisition Pricing Information

Historical prices are an excellent source of market information. Research of historical market information can tell you a lot about the acquisition situation for the product at some point or points in the past. For that information to be useful, you must be able to determine what the market situation was in the past and how it has changed since then. The following table presents research elements that you should consider in your examination of historical acquisition information and questions that you should consider in your research.

1.2.1 Historical Pricing Data For Market Research (cont)

Researching
Historical
Acquisition
Pricing
Information (cont)

HISTORICAL ACQUISITION DATA FOR PRICING	
Research Element	You Should Be Able to Answer Questions Such As...
Trends in Supply and Demand	<ul style="list-style-type: none"> • When did past acquisitions take place? • Is there any indication of prevailing market conditions at that time?
Pattern of Demand	<ul style="list-style-type: none"> • What quantities were solicited for each acquisition? • What quantities were acquired?
Trends in Prices	<ul style="list-style-type: none"> • What was the contract price? • How did the unsuccessful offers compare with the successful offer?
Start-up Costs and Pricing Strategy	<ul style="list-style-type: none"> • Did the contract price include one-time engineering, tooling, or other start-up costs? • Should future contracts include similar or related costs? • Were necessary start-up costs paid for in a manner separate from the price for the item or service?
Sources of Supplies or Services	<ul style="list-style-type: none"> • How many sources were solicited for the prior acquisition? • What specific sources were solicited? • How many sources offered bids or proposals? • What specific sources offered bids or proposals?
Product Characteristics	<ul style="list-style-type: none"> • Are there any significant differences between the Government requirements documents for the prior contract and the current requirements?
Delivery/ Performance Terms	<ul style="list-style-type: none"> • What was the delivery or performance period in days, weeks, months, or years? • In what month(s) were the supplies to be delivered or the service to be performed? • Did the vendor meet the delivery targets? • What was the FOB point? • Was premium transportation required for timely delivery?
Ownership Costs	<ul style="list-style-type: none"> • What costs of ownership were associated with the acquisition?
Acquisition Method	<ul style="list-style-type: none"> • What acquisition method was employed for past acquisitions?
Contract Terms and Conditions	<ul style="list-style-type: none"> • What were the general terms of past contracts? • Are there any significant differences between terms of the last contract (e.g., packing requirements, type of contract, and the like) and those recommended for this acquisition?
Problems	<ul style="list-style-type: none"> • What problems (if any) were encountered during contract performance?

1.2.2 Published Data For Market Research

In This Subsection This subsection presents examples of several types of published information that you can use in developing your preliminary estimates of contract price.

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1.2.2 Published Data For Market Research (cont)

Typical Data
Available by
Source

The table below summarizes the sources of pricing related data and typical data available for each source.

TYPICAL DATA AVAILABLE BY SOURCE									
Source	Product Specs.	Product Picture	Pricing Info.	Order Quantity Req. Info.	Delivery Data	Source Location	Warranty and Guarantee Info.	Independ. Eval.	General Econ. Data
<i>Catalogs</i>	Yes	Often	Yes	Yes	Yes	Yes	Rarely	No	No
<i>Product Brochures</i>	Yes	Often	Often	Often	Often	Yes	Yes	No	No
<i>Trade Journals</i>									
Advertisement	Yes	Often	Rarely	Rarely	Rarely	Often	Often	No	No
Product Evals	Yes	Often	Often	No	No	Often	Often	Yes	No
Articles	Yes	Rarely	Rarely	No	No	No	No	Yes	No
<i>Source ID Pubs</i>									
Yellow Pages	No	Rarely	No	No	No	Yes	No	No	No
Thomas Register	Yes	Yes	No	No	No	Yes	No	No	No
<i>Government or Independent Testing</i>									
Qualified Products Lists	Yes	No	No	No	No	No	No	Yes	No
Underwriters Laboratory	Yes	No	No	No	No	No	No	Yes	No
<i>Federal Supply Schedules</i>	Yes	Often	Yes	Yes	Yes	Yes	Often	Yes	Yes
<i>Govt Economic Data</i>	No	No	No	No	No	No	No	No	Yes
<i>Non-Govt. Economic Data</i>	No	No	Some Do	No	No	No	No	No	Yes

1.2.2.1 Manufacturer And Dealer Catalogs

Introduction

Catalogs are familiar sources of data that can be found in both department stores and mail order houses. The manufacturer and dealer catalogs used in Government purchasing resemble these catalogs in the type of information they provide.

Data in Manufacturer and Dealer Catalogs

The table below provides an overview of the typical data you can find in manufacturer and dealer catalogs.

DATA SOURCE	TYPICAL DATA
Catalogs	Product descriptions Pictures Prices and quantity discounts Minimum order requirements Delivery data Points of contact for quotes and orders

1.2.2.2 Product Brochures And Promotional Material

Introduction

Brochures and promotional material provide much greater detail about specific products than would normally be included in a catalog with several thousand other products. While details on pricing and delivery are often included, this information may be excluded in order to provide greater latitude in negotiating the terms of sale.

Data in Product Brochures and Promotional Material

The table below gives an overview of typical data you can find in product brochures and promotional material.

DATA SOURCE	TYPICAL DATA
Product Brochures and Promotional Material	Detailed specifications Pictures Available service guarantees and products Points of contact for quotes and orders Pricing information Delivery data

1.2.2.3 Trade Journals

Introduction Trade journals provide a variety of information from different sources, including advertisements, product evaluations, and independent articles.

Trade Journal Data Sources

Advertisements typically consist of product descriptions, often with pictures and comparisons with competitor's products. Sources to consult for additional information may also be identified.

Product evaluations provide independent information to members of the trade who may be considering the purchase of that product or a similar one. Evaluations usually deal with technical capabilities, but often include information on source locations, pricing, and warranties.

Articles about the trade may indirectly provide an independent analysis of product capabilities. Successes or failures in using particular products or services serve as evaluations of their quality.

Trade Journal Data The table below gives an overview of typical data you can find in trade Journals.

DATA SOURCE	TYPICAL DATA
Advertisements for Products Used in the Trade	General product descriptions Pictures Comparisons with competitive products List prices
Independent Product Evaluations	Strengths and weaknesses of products Warranty or guarantee provisions Comparisons with competitive products Pricing information
Articles	Application of existing products to problem solving Strengths and weaknesses of products in problem solving

1.2.2.4 Government Or Independent Testing

Introduction

Product testing by Government or independent laboratories can provide essential product data. The data can be used to determine if a product meets minimum requirements and to identify and compare similar products.

Qualified Products Lists

FAR 9.201 FAR 9.202(c)

The results of Government testing often means inclusion on a **Qualified Products List (QPL)**. A QPL is a list of products which have been examined, tested, and have satisfied all applicable Government product qualification requirements. When a QPL applies to a particular product, all potential offerors must either be on the list or demonstrate to the satisfaction of the contracting officer that their product meets or can meet QPL standards before the date set for contract award. You can also use QPLs to identify potential sources for similar products.

Underwriters Laboratory

The best known independent testing laboratory is **Underwriters Laboratory (UL)**. Testing and approval by UL is essential for a wide variety of electrical products.

Data from Product Standards and Testing Laboratories

The table below gives an overview of typical data you can obtain from product standards and testing laboratories.

DATA SOURCE	TYPICAL DATA
Qualified Products Lists	Results of product tests to Government requirements
Underwriters Laboratory (UL)	Results of tests of electrical products to UL commercial standards

1.2.2.5 Source Identification Publications

Introduction	There are thousands of publications designed to assist you in locating possible sources of product information. The most widely accepted of these are the Yellow Page and the Thomas Register of American Manufacturers.
Yellow Pages	Every city, large or small, has a telephone book with an associated Yellow Pages. Larger cities and metropolitan areas typically have one or more Commercial Yellow Pages and Business Yellow Pages. Many firms advertise in both types, but the business Yellow Pages specialize in the business and industrial products that are more relevant to Government acquisition. Both Commercial and Business Yellow Pages identify firms by the products or services that they provide. Listings may even include pictures of major products.
The Thomas Register of American Manufacturers	<p>The Thomas Register of American Manufacturers, commonly referred to as the Thomas Register, devotes 23 volumes to assisting commercial buyers identify potential product sources. The volumes are divided into four sections:</p> <ul style="list-style-type: none">• Products and Services -- companies listed by product or service.• Company Profiles -- capabilities and contact information are presented for listed firms.• Catalog Files -- detailed product information, specifications, drawings, photos, availability, and performance data.• Inbound Traffic Guide -- intermodal guide to transportation sources.

1.2.2.5 Source Identification Publications (cont)

Data in Source
Identification
Publications

The table below gives an overview of typical data you can find in the Yellow Pages and the Thomas Register.

DATA SOURCE	TYPICAL DATA
Yellow Pages	Sources of identified products and services by geographic location Specific products within a product service category
Thomas Register	Sources of identified products and services Source capabilities and contact information Product specifications Selected product pictures Product availability Product performance Transportation sources

1.2.2.6 Federal Supply Schedules

Introduction

FAR 8.401
FAR 8.404(a)

The General Services Administration (GSA) is best known for its stock program which buys, stores, and distributes a wide variety of items for use by all Government agencies. However, GSA also directs and manages the Federal Supply Schedule program that provides Federal agencies with a simplified process for obtaining commonly used supplies and services at prices associated with volume buying. GSA establishes indefinite delivery contracts with commercial firms to provide supplies and services at stated prices for given periods of time. The Federal Supply Schedule (FSS) program then issues Federal Supply Schedules (FSSs) that contain the information for placing delivery orders with contractors. Contracting offices can then issue delivery orders directly to the FSS contractors for the required supply or service.

FSS provides you with sources for a wide variety of supplies and services. If an item is on a FSS, you do not need to seek further competition or determine that the prices are fair and reasonable, because the FSS contracting officer must determine that the price is fair and reasonable before the contract is awarded. Even if you do not use the FSS, the Schedules are a ready source of market information.

GSA Advantage!TM

GSA Advantage is an electronic on-line shopping mall maintained by the General Services Administration to support Government operations. With GSA Advantage, you can instantly obtain a wide variety of product information that you can use in pricing the same or similar products. Research capabilities include:

- Browsing or searching for items using key words, part numbers, National Stock Numbers, or vendor names;
- Comparing features, prices, and delivery options; and
- Configuring products and adding accessories.

1.2.2.6 Federal Supply Schedules (cont)

FSS Data

The table below gives an overview of typical data available in FSS including FSS available published from GSA Advantage.

DATA SOURCE	TYPICAL DATA
Federal Supply Schedules	Product descriptions Pictures Pricing and discount information Delivery/performance terms

1.2.2.7 Government Economic Data

Introduction

The Federal Government develops and publishes large amounts of economic data. Much of this information is used to make national economic decisions. It is valuable to buyers attempting to develop preliminary price estimates, because knowledge of the economy and market forces is vital.

Data are published by several Government departments and bureaus. The best known sources include:

- Department of Agriculture;
- Department of Commerce;
- Bureau of Labor Statistics (BLS);
- Federal Reserve System; and
- Congress.

Index Numbers

Specific price comparisons, known as price index numbers, are particularly useful in making price comparisons over time. You can use price index numbers to adjust the price for any purchase or sale of a particular product at any time, to estimate the contract price for your current requirement. You can even make comparisons using information from several acquisitions involving several different vendors.

You can use indexes routinely published by the Government or you can tailor indexes to fit your particular needs. The organizations that prepare Government indexes may even be willing to construct a special price index to meet your estimating needs, if the need for the index justifies their cost of developing it. For example, the Bureau of Labor Statistics provides the Navy with shipbuilding labor indices which they have tailored to assist in estimating the cost of ship construction at commercial shipyards.

Probably the best known Government index is the ***Consumer Price Index (CPI)***, an index published by the Bureau of Labor Statistics. You may be able to use the CPI to evaluate price changes related to labor and labor intensive products. However, the index most commonly used by Government buyers is the ***Producers Price Indexes (PPI)***, another index published monthly by the Bureau of Labor Statistics. You can use the PPI to monitor and estimate price changes for products traded at the wholesale level.

1.2.2.7 Government Economic Data (cont)

Government
Economic
Sources

The table below gives an overview of indexes and other data available from various Government departments and bureaus.

DATA SOURCE	TYPICAL DATA
Department of Agriculture <i>http://www.usda.gov</i>	<i>Agricultural Price Monthly</i> -- Monthly agricultural price information by commodity <i>Agricultural Statistics</i> -- Annual agricultural commodity information including price data
Department of Commerce <i>http://www.census.gov</i>	<i>Monthly Wholesale Trade: Sales and Inventories</i> -- Monthly data on wholesale trade and inventories <i>Current Industrial Reports</i> -- A series of periodic reports on production and consumption in identified industries
Bureau of Labor Statistics <i>http://www.bls.gov</i>	<i>Consumer Price Index</i> -- Monthly report on changes in the prices paid by urban consumers for a fixed market basket of consumer goods and services <i>Producer Price Index</i> -- Monthly report on the selling prices received by domestic producers of goods and services <i>Employment Cost Index</i> -- Monthly report on the change in the cost of labor, free from the influence of employment shifts among occupations and industries
Federal Reserve System <i>http://www.federalreserve.gov</i>	<i>Federal Reserve Bulletin</i> -- Monthly economic indexes and business data <i>The Beige Book</i> -- Summary of comments on current economic conditions received from business and other contacts outside the Federal Reserve

1.2.2.8 Non-Government Economic Data

Introduction	<p>There are a number of non-Government sources of economic and market data, including:</p> <ul style="list-style-type: none">• Purchasing organizations;• Commodity or industry publications; and• Economic analysis services.
Purchasing Organizations	<p>The most noted purchasing organization that publishes market data is the National Association of Purchasing Managers (NAPM). The NAPM provides members with monthly information on market price trends and product availability. Data are based on the actual experience and projections of purchasing managers throughout the country.</p>
Commodity or Industry Publications	<p>Numerous commodity and industry publications provide specific market data. Periods of publication and the information presented vary.</p>
Economic Analysis Services	<p>Commercial economic analysis services have also been established to provide estimators with current analyses of general market conditions and price trends. Currently, the economic analysis service most widely accepted by Government purchasing organizations is Standard & Poor's DRI Cost Information Service. They provide a variety of services. As the timeliness and amount of information increases, the price also increases.</p>

1.2.2.8 Non-Government Economic Data (cont)

Data from Non-Government Economic Sources

The table below gives an overview of typical economic and market data that you can obtain from various non-Government sources.

DATA SOURCE	TYPICAL DATA
Purchasing Organizations	<p>Manufacturing NAPM Report on Business -- Monthly information on production, deliveries, supplier backlogs, inventories, and prices -- http://www.napm.com</p> <p>Non-Manufacturing NAPM Report on Business -- Monthly information on business activity, new orders, backlog of orders, supplier deliveries, and prices -- http://www.napm.com</p>
Commodity or Industry Publications	<p>American Metal Market -- Daily information on the metals industry from scrap to precious metals including prices -- http://www.amm.com</p> <p>Black's Guide -- Periodic information on commercial and industrial real estate leasing in key U.S. metropolitan areas -- http://www.blacksguide.com</p> <p>Chemical Marketing Reporter -- Weekly information on market indexes, current prices, and price changes -- http://www.chemexpo.com</p> <p>Platt's Oilgram Price Report -- Daily information on current oil prices -- http://www.platts.com</p> <p>Pulp and Paper Week -- Weekly information on paper industry prices, economics, and technology -- http://www.pulp-paper.com</p> <p>Random Lengths -- Weekly information on prices of wood products -- http://www.randomlengths.com</p>
Economic Forecasting Services	<p>Standard & Poor's DRI Cost Information Service -- Information and forecasts for more than 650 prices and wages in North America, Europe, and the Pacific Rim -- http://www.dri.mcgraw-hill.com</p>

1.2.3 Market Research Data From Buyers And Other Experts

Introduction

FAR 10.002(b)(2)(i)

Buyers and other experts are important sources of market information. This is especially true when they have been involved in the acquisition of the same or similar items. They can refer you to official contract files that you may not otherwise find and they can provide tips and insights that may not appear in official files.

Data from Government Personnel

Examples of Government personnel who can provide information useful in pricing include:

- Buyers;
- Contract administrators;
- Technical experts, and
- Auditors.

The table below gives an overview of typical data you can obtain from Federal Government buyers and analysts.

DATA SOURCE	TYPICAL DATA
Buyers	<ul style="list-style-type: none"> • Information on purchases of the same or similar products • Identification of potential sources • Information on the capabilities of sources already identified
Contract Administrators	<ul style="list-style-type: none"> • Information on purchases of the same or similar products • Information on the capabilities of sources already identified • Contractor performance assessment review data
Technical Experts	<ul style="list-style-type: none"> • Identification of potential sources • Information on the capabilities and efficiency of sources already identified • Identification of price drivers in the Government requirements
Auditors	<ul style="list-style-type: none"> • Information from prior audits, including rate and other cost trends • Information from contractor compensation reviews

1.2.3 Market Research Data From Buyers And Other Experts (cont)

Data from
Personnel
Outside the
Government

Buyers and other experts from industry, state and local governments can also provide useful information, particularly for common supplies and services. The information that you can gather will depend on the personnel involved. For example, a buyer from outside the Federal Government can provide the same type of information that you would expect to receive from a Government buyer. However, the amount and types of data that you can gather depends largely on the willingness of the source to release what is often considered proprietary data.

Collecting
Information

Information can be gathered in several ways. The two most common methods are interaction at professional meetings and specific questions or surveys.

- **Professional Meetings and Presentations.** Discussions at professional meetings and presentations are a good way to gather general information on purchasing particular categories of supplies and services. Professional organizations such as the National Contract Management Association and the National Association of Purchasing Managers actively encourage such professional development.
 - **Telephone Surveys.** Telephone surveys can also provide useful information on potential sources in the area. Both government and non-government experts are usually anxious to respond to questions from fellow professionals. However, be aware that proprietary data restrictions may prevent many responses.
-

1.2.4 Market Research Data From Prospective Offerors

Encourage

Early

Exchanges

FAR 15.201(a)

Potential offerors are a good source of information of market information for planning purposes. Early exchanges of information between potential offerors and members of the Government Acquisition Team can identify and resolve concerns regarding the acquisition strategy, the Government requirement, proposal instructions, offer evaluation criteria, reference documents, and other industry concerns.

Techniques to

Promote Early

Exchanges

FAR 15.201

Techniques to promote early exchanges of information include:

- **Industry or Small Business Conferences.** Many industries sponsor periodic conferences to share information on technical achievements and business practices.
- **Public Hearings.** Government personnel can use public hearings to disseminate information about projected Government requirements. Prospective offerors and other interested parties can ask questions and provide input to the acquisition decision makers.
- **One-On-One Meetings.** Any meetings with prospective offerors that are substantially involved with potential contract terms and conditions should include the contracting officer.
- **Presolicitation Notices.** The notice may be used as a preliminary step in preparation for a negotiated acquisition. Issue the notice to potential sources and synopses the notice in accordance with FAR 5.2.
- **Draft Requests for Proposals.** Distributing a draft of the proposed solicitation will provide prospective offerors an opportunity to comment on specific requirements that may unreasonably restrict competition or favor one firm over other firms in the industry.

1.2.4 Market Research Data From Prospective Offerors (cont)

Techniques to
Promote Early
Exchanges
(cont)

- **Requests for Information.** A request for information (RFI) may be used when the Government does not presently intend to award a contract, but wants to obtain price, delivery, or other information for planning purposes. Responses to an RFI are not offers and cannot be accepted by the Government to form a binding contract. Agency approval may be required before issuing an RFI.
 - **Presolicitation or Preproposal Conferences.** When you use a preproposal or presolicitation conference, materials distributed at the conference should be made available to all potential offerors, upon request.
 - **Site Visits.** Visits to contractor plants or proposed sites of Government contract performance can facilitate information exchange.
-

Public
Disclosure of
Information

FAR 15.201(f)

When specific information about a proposed acquisition that would be necessary for proposal preparation is disclosed to one or more potential offerors, that information must be made available to the public as soon as practicable, but no later than the next general release of information, in order to avoid creating an unfair competitive advantage. Information provided to a potential offeror in response to that offeror's request must not be disclosed if doing so would reveal the potential offeror's confidential business strategy.

1.2.4 Market Research Data From Prospective Offerors (cont)

Data from
Prospective
Offerors

The table below gives an overview of typical data available from these various mechanisms for exchanging information with prospective offerors.

DATA SOURCE	TYPICAL DATA
Industry Or Small Business Conferences	<ul style="list-style-type: none"> • General information about industry capabilities and business practices
Public Hearings	<ul style="list-style-type: none"> • Industry feedback on projected Government requirements
One-On-One Meetings	<ul style="list-style-type: none"> • Individual company feedback on ways and means to meet Government requirements
Presolicitation Notices	<ul style="list-style-type: none"> • Expressions of potential offeror interest in the contemplated acquisition • Information on potential offeror's management, engineering, and production capabilities • Other preliminary information based on a general description of the supplies or services involved
Draft Request For Proposal	<ul style="list-style-type: none"> • Comments on requirements that will unreasonably restrict competition and increase price • Comments on unreasonably complex or potentially biased evaluation criteria
Request For Information	<ul style="list-style-type: none"> • Comments on quantity breaks for discounts • Comments on delivery terms • Information on market conditions affecting the proposed solicitation • Comments on the proposed requirement
Presolicitation Conferences	<ul style="list-style-type: none"> • Information on uncertainties that may drive up prices • Information on noncommercial requirements that may drive up prices • Information on other aspects of the requirement that may limit competition or affect pricing
Site Visits	<ul style="list-style-type: none"> • Plant site visits may provide information on industry methods and capabilities • Prospective offeror visits to Government contract performance sites may provide unique insights into factors that will affect contract price and performance

1.2.5 Market Research Data From Other Sources

Introduction	Other important sources of market data include trade and professional associations, state and local watchdog agencies, and interactive on-line communication groups.
Trade and Professional Associations	Trade and professional associations can provide information about sources, source responsibility, commercial standards, and cost drivers.
Chamber of Commerce and Better Business Bureau	Professional organizations devoted to business development and the maintenance of responsible business practices, such as the Chamber of Commerce and Better Business Bureau, can provide substantial information on pricing, available competition, and the responsibility of identified sources.
State and Local Watchdog Agencies	State and local watchdog agencies can provide information on the capabilities and pricing of sources, particularly sources accused of price gouging or poor performance.
On-Line Communications Groups	<p>The Internet is becoming an increasingly important source of market information. In addition to product information provided by potential offerors, there are tools specifically designed to support market research.</p> <ul style="list-style-type: none">• The Commercial Advocates Forum (http://www.cadv.org) is designed to provide information on market research, commercial terms and conditions, and other subjects related to commercial contracting.• IMART is designed to provide guidance on market research and potential sources for products identified by the user. This component of the Component Advocates Forum can also be reached directly at http://www.imart.org.

1.3 Using Market Research To Estimate Probable Price

Section Introduction

In This Section

This section covers the following topics:

TOPIC	SEE PAGE
1.3.1 Evaluating Your Market Research	1-46
1.3.2 Developing Your Price Estimate	1-48

Use Market Research to Estimate Probable Price

As you perform your market research, document the sources of information that you considered and what you found. Consider how you can increase competition that includes firms that commonly sell the same or similar items in the commercial market. At the same time, consider how current requirements, particularly Government-unique requirements will affect competition and contract price. Generally, both tasks will focus on the same requirements, because requirements that unnecessarily limit competition will also unnecessarily increase contract price.

1.3.1 Evaluating Your Market Research

Questions to Consider in Evaluating Your Research

The better your research, the more reliance you should be able place on the price estimate that you develop from that research. The table below outlines questions that you can use to evaluate the quality of your market research. Normally, you should check “Yes” or “No” depending on whether you considered a particular factor. However, there may be some acquisitions where a particular question does not apply. For example the first question deals with the use of historical price. If the Government has never acquired the product or a similar product, this question would not apply in your evaluation of estimate quality and you should check “N/A.”

FACTORS TO CONSIDER IN DEVELOPING AN ESTIMATED PRICE			
Yes	No	N/A	In preparing your price estimate, have you considered:
			Historical prices paid for the product and changes in the product or market since then?
			The current level of competition between prospective offerors and how it will affect contract price?
			How increasing or decreasing the quantity being acquired would likely affect contract price?
			How changing the timing of the acquisition would likely affect contract price because of projected trends in supply or demand?
			How changing the timing of the acquisition would likely affect contract price because of projected cyclical changes in supply or demand?
			How other forces are expected to affect prices in the near future?
			How the pricing strategies of prospective offerors will affect contract price?
			Which firms in the market are expected to respond to the solicitation and how their prices compare with the firms that are not expected to respond?
			Whether the requirements document will unnecessarily increase prices proposed by offerors?
			Whether delivery/performance requirements will unnecessarily increase prices proposed by offerors?
			Whether different products from different vendors will have different costs of ownership?
			Whether contract terms and conditions will unnecessarily increase prices proposed by offerors?
			Ways to ameliorate the risk related to problems associated with performance of similar contracts?

1.3.1 Evaluating Your Market Research (cont)

Evaluating Your
Research

If you can answer “Yes” to all the questions in the table above, you have done an excellent job of market research for estimate development. When you must answer “No,” your research is incomplete. For smaller dollar acquisitions, an incomplete evaluation may be acceptable as long as the evaluation covers the factors that you feel are most likely to affect contract price. However, as the estimated price increases, the need for in-depth research also increases.

1.3.2 Developing Your Price Estimate

Different Data,
Different
Estimates

As you perform your market research, you will likely find different data that could lead you to different preliminary estimates of contract price. Using the price that you paid for the item 11 months ago, your estimate might be \$19,700. If you use the last price paid for the item plus 4 percent inflation your estimate might be \$20,488. The catalog price for a similar item from a commercial vendor might be \$19,750. The catalog price for a comparable item from a second vendor might be \$19,900.

Consider
Various
Estimates

Which estimate is correct? There is no one answer. They all appear to be valid estimates based on the information used to develop them. This demonstrates a common situation -- there is no single estimate that you can say is right to the exclusion of all other estimates. In fact, they define a range of reasonable prices from \$19,700 to \$20,488.

You could document the various estimates in a paragraph or in a table similar to the following:

PRELIMINARY ESTIMATE OF CONTRACT PRICE	
Price Estimate	Estimating Rationale
\$19,700	Estimate based on the price determined fair and reasonable 11 months ago under contract XX-9X-XXXX.
\$20,488	Estimate based on the price determined fair and reasonable 11 months ago under contract XX-9X-XXXX plus 4 percent inflation estimated using the Producers Price Index for similar items.
\$19,750	Estimate based on current FloMo Systems catalog price for the quantity required.
\$19,900	Estimate based on current Acme Products catalog price for the quantity required.

Point Estimate

Given this same information, different estimators could have different opinions as to which of these estimates you should use as your preliminary price estimate. That is one reason why it is so important to present the range of possible estimates and the rationale for each. However, in this case an estimate of \$19,750 appears most reasonable because it is based on a current catalog price. Remember, the lower \$19,700 estimate is 11 months old.

Chapter Vignette (cont)

WIDGET ACQUISITION (cont)

You contacted the individual who prepared the widget purchase request, and she told you that the estimate is based on the \$5,000 unit price shown in a recent trade magazine advertisement.

Your review of the item's acquisition history confirms that the unit price for recent acquisitions has been \$5,000 to \$5,500. Recent acquisition quantities have ranged from 25 to 40 units.

Catalogs from different manufacturers show prices from \$4,625 to \$6,175 in quantities of 75 to 150.

You are confident that your current solicitation source list includes most major widget suppliers. Whenever you identified a new source during your research, you added the source to your current solicitation list.

Combining all you have learned about widgets, you have set your preliminary estimate of probable price at \$4,625 a unit and a total estimated price of \$453,250. You should feel confident with your estimate because it is based on a detailed analysis of available information.

LESSON 1

CONDUCT MARKET RESEARCH FOR PRICE ANALYSIS

BRITTLE BEARINGS

You have just received a purchase request for the purchase of 5,000 roller bearings. The purchase request estimate is \$80.00 per unit for a total of \$400,000. The Government estimate is based on a recent estimate prepared by your local engineering staff as part of a routine review of items whose annual total purchase price exceeds \$100,000. The estimate was prepared independently using manufacturing principles and factors commonly used in the bearing industry.

The procurement history indicates that the last purchase of the item was three months ago. At that time, 2,000 units were purchased at a price of \$120.00 each.

Brittle has been the sole source for these bearings since they purchased them from their only competitor about five years ago. The price for the last competitive purchase was \$57.50 five years ago, just before the purchase of their competitor.

Review of the Producer Price Index (PPI) shows that average bearing prices have increased 40 percent over the past five years.

1. Based on the above information, what is your best estimate of a reasonable price for the roller bearings?
2. What additional information would be useful in your analysis and where might you go to obtain it?

SUBURBAN JANITORS

The office tower that provides the 70,000 sq. ft. of office space currently occupied by your organization is being demolished as part of a new stadium construction project. As a result, your organization is about to move into a 60,000 sq. ft. facility in suburban area about 100 miles from your current center-city location. The Relocation Project Officer just sent you a \$424,800 purchase request for janitorial services. A cover letter on the purchase request states that the purchase request estimate was developed using an estimate of \$7.08 per square foot. That is 80 percent of the current \$8.85 price per square foot at your current location. The letter further states that savings are expected because of the suburban vs. center-city location -- the level of service required has not changed.

You are concerned that the purchase request estimate is not reasonable for the work required. Identify sources of information that you could use in developing your own price estimate and the type of information that you would expect to obtain from each source.

REVIEW QUESTIONS

1. Is market research required for acquisitions with an estimated price that is less than the simplified acquisition threshold?
2. When is market research required for acquisitions over the simplified acquisition threshold?
3. What document is normally used to transmit a requirement to the contracting office for procurement action?
4. As you review the purchase request, what five general questions should you ask about estimate development?
5. Should you encourage estimators to contact potential suppliers to obtain quotes to be used as purchase request estimates? Why?
6. What information concerning trends in supply and demand can you usually obtain from an acquisition history?

REVIEW QUESTIONS (cont)

7. Would you expect to find product specifications in the Yellow Pages?
8. Would you expect to find company profiles in the Thomas Register?
9. Would you expect to find product descriptions on GSA Advantage?
10. Would you expect to find pricing and discount information in a vendor catalog?
11. Can you ask other Government buyers for information on potential sources?
12. Should you use a presolicitation conference to prequalify prospective sources?

REVIEW QUESTIONS (cont)

13. Is there generally a relationship between the quality of your market research and the quality of price estimate that you develop using that research?

14. Would you expect the need for in-depth market research to increase or decrease as the estimated price of the requirement increases?

15. Given the same market research will all estimators always arrive at the same estimate of a reasonable price

CHAPTER 1

ANSWERS TO REVIEW QUESTIONS

1. Is market research required for acquisitions with an estimated price that is less than the simplified acquisition threshold?

Yes. Before developing new requirements documents for an agency acquisition threshold?

2. When is market research required for acquisitions over the simplified acquisition threshold?

Before developing new requirements documents for an agency acquisition and before soliciting offers. FAR 10.001(a)

3. What document is normally used to transmit a requirement to the contracting office for procurement action?

Purchase request.

4. As you review the purchase request, what five general questions should you ask about estimate development?

- a. **How was the estimate made?**
- b. **What assumptions were make?**
- c. **What information and tools were used?**
- d. **Where was the information obtained?**
- e. **How did previous estimates compare with prices paid?**

5. Should you encourage estimators to contact potential suppliers to obtain quotes to be used as purchase request estimates? Why?

No. See Section 1.1.4

REVIEW – ANSWERS TO QUESTIONS (cont)

6. What information concerning sources of supplies or services can you usually obtain from an acquisition history?

Sources solicited for the acquisition. Specific sources solicited. Number of sources submitting offers. Specific sources submitting offers.

7. Would you expect to find product specifications in the Yellow Pages?

No, the Yellow Pages would not provide product specifications.

8. Would you expect to find company profiles in the Thomas Register?

Yes, company profiles comprise one whole section of the Thomas Register.

9. Would you expect to find product descriptions on GSA Advantage?

Yes, GSA provides product specifications and prices for GSA Store and FSS items.

10. Would you expect to find pricing and discount information in a vendor catalog?

Yes, such information is commonly provided in vendor catalogs.

11. Can you ask other Government buyers for information on potential sources?

Yes, they are often an excellent source for such information.

12. Should you use a presolicitation conference to prequalify prospective sources?

No, such action is prohibited.

13. Is there generally a relationship between the quality of your market research and the quality of price estimate that you develop using that research?

Yes.

14. Would you expect the need for in-depth market research to increase or decrease as the estimated price of the requirement increases?

Increase. The risk increases as the estimated price increases.

15. Given the same market research will all estimators always arrive at the same estimate of a reasonable price?

No, different estimators could have different opinions.